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Frame, Andrew Jay

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[Waukesha? Wis.]

[1914?]

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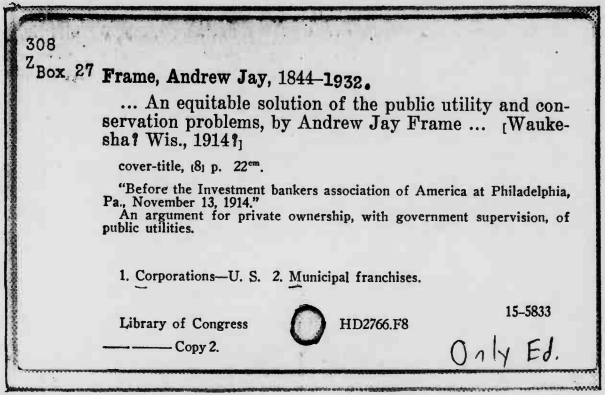

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AN EQUITABLE SOLUTION

OF THE

Public Utility and Conservation Problems

BY

ANDREW JAY FRAME

President of the
WAUKESHA NATIONAL BANK
Waukesha, Wis.

Before

The Investment Bankers Association of America

At

PHILADELPHIA, PA.

November 13, 1914

With Compliments of
ANDREW J. FRAME.

EQUITY UPBUILDS, INEQUITY DESTROYS.

Is it Worthy of Perusal? Read a few Extracts from Competent Authorities.

Geo. B. Caldwell, of Chicago, retiring president of the Association, says:

"A very, very good address. The whole article is a valuable paper."

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"I have read with especial interest your paper. It seems to me that this statement is extremely well timed and should receive very favorable consideration from the public and from bond buyers."

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"That quiet publicist and banker, Andrew Jay Frame, of Wisconsin, in his address on Public Utility and Conservation, brings out a strong position on private ownership with public supervision. Great research shown in preparation of his paper. A complete and suggestive analysis."

The Philadelphia Inquirer says:

"That which aroused most interest was by Mr. Frame, a banker of Wisconsin, who, after an exhaustive study, announced that operation of public utilities by nation, state or city was 20% more expensive than by private corporations. Twenty per cent. is a large margin of waste. It marks the difference between progress and decay".

By the publication in full of the address in quite a number of important periodicals, together with generous quotations by the metropolitan press, indicates further quotations seem unnecessary.

AN EQUITABLE SOLUTION

OF THE

Public Utility and Conservation Problems

Before discussing the subject, permit me to say that I refrain from criticism or comment as to the causes of the present depression in security values, but will confine myself to constructive suggestions, with the hope of helping to substitute stability and confidence where instability and distrustful pessimism seem to prevail.

Further, for fear my motives may be misconstrued, will say, I am not a promoter and have no interest in watered stocks or bonds of any nature. My whole purpose is to broaden and stabilize progress.

The American people are now wrestling with the great question of how to deal justly with and equitably settle the vexed and complex public utilities problems and at the same time conserve our natural resources in the interest, not of the classes, but of the masses as a whole.

True progress is brought about, not through special privilege, nor unbridled radicalism, nor under a socialistic regime. On the other hand, I am fully convinced that all history proves the truth of the declaration of that great statesman, Thomas Jefferson, to-wit: "Agriculture, manufactures, commerce and navigation, the four pillars of our prosperity, are most thriving when left most free to individual enterprise."

Individual initiative; the ownership of one's own home, sweet home; the right to enjoy the fruits of one's own labors, lifts even the lowest to the right of kingship, energizes his activities and thus insures the greatest possible progress to any nation. The result of individual freedom in the United States is the most shining example of progress the world ever knew.

State Socialism, born, in most cases, of philanthropic intent, is destructive to human progress, because the knowledge that the State will care for us, blights the energies of the few who are born with broad powers of initiative. The masses grow indifferent if the State will care for them. To abolish poverty is, alas, beyond the

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power of man. For proof, read that Book of Books, the Bible, "The poor ye have always with you;" read the parable of the ten talents; read the three thousand proverbs of Solomon, and refutation seems impossible.

The temporary pyrotechnic displays of progress through inordinate expenditures under Socialistic theories, blind many who do not study history broadly. These flights of debauchery result generally in inordinate taxation and staggering public debts, as well as blighting human energy.

The best authorities agree that the difference between private and public ownership and management of any utility or enterprise, approximates 20 per cent. in favor of individualism.

This 20 per cent. alone spells human progress as against public decay. Government ownership is a pure monopoly and destroys individual initiative and opportunity and thus hampers progress.

Public property under constant political changes of control is in a large measure considered public plunder—the congressional "pork barrel" is but one malignant type—but, under individual ownership, the watchful eyes of the owner compel better management and greater progress.

I, therefore, firmly believe that our greatest progress lies in individual ownership and management of public utilities, railroads, etc., but subject to governmental supervision. Let us never forget, that such supervision must permit of reasonable profits, because profit enlarges and loss blights all progress, thus labor, as well as capital, is equally interested.

Doubtless on such a middle ground lies our greatest progress and purity. The great bulk of the masses desire justice, therefore let us reason together a little.

It may appear to be a broad claim, but I profoundly believe, after mature deliberation—coupled not with theory alone, but with actual experimental proof—that the solution herewith suggested deals equitably with capital and the people alike. All honest men and all true reformers crave such a result.

A few years before Chicago granted the present Electric Railway Ordinances, I gave an address at a bankers' club meeting there, outlining these ordinances practically as granted. I have reason to believe that through the publication of that address, it had something to do with shaping those ordinances. The result has proved eminently fair, both to the many owners of the securities, as well as to the people of Chicago, in a just division of the profits.

Permit a brief outline of the plan, as a suggested similar solution for adoption generally throughout the United States in the hope and firm conviction, if adopted, it will solve the knotty problems equitably. It will also substitute optimism in place of halting pessimism and general satisfaction will reign. The following covers a practical outline:

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PUBLIC UTILITIES.

First. They should be under the control of the United States Corporation Bureau, or The Interstate Commerce Commission for interstate enterprises and under State Commissioners for state enterprises.

Second. In any corporation hereafter organized, the issues of stocks and bonds allowed by the commissioners having jurisdiction, should be limited to the actual values of all moneys or properties at fair values turned into the corporation; also cost of incorporation and interest on money or property advanced up to the day of opening the corporation's business. To this should be added a percentage of stock to cover reasonable risk. This might be graded to not over 10 per cent. in the case of corporations promising quick returns. In no case should the amount allowed by the commissioners have the taint of "watered stocks."

Bonds should be limited to not over 75 per cent. of total costs. All in excess should be stock issues, which would cover good faith of promoters and owners.

Third. Non-competitive charters should be granted for not less than twenty years at rates of service likely to pay to investors an annual net profit of 6 to 8 per cent. according to the risk involved. The low limit of 6 per cent. set by the United States Supreme Court in the New York City Gas Case, is not a fair criterion because this is clearly a first class risk. That rate to cover increased risks in more hazardous undertakings, in cities of the second, third and fourth class, must be increased to tempt capital.

In arriving at the profits, deduct

(a) For salaries and labor bills.

(b) In order that the innocent holders' investments in stocks and bonds be not jeopardized, compel the corporation by adequate depreciation charges to maintain the up-keep of the property to its normal condition out of earnings; and also make reasonable reservations to cover accidents and extraordinary risks to which the enterprise may be subject. In short, create a surplus.

(c) Pay the interest on the bonds and other indebtedness; also pay dividends of 6 to 8 per cent. on the outstanding stocks, as may be agreed upon when charters are granted, keeping always in mind that the rate of dividend paid should cover the variable risks involved. Doubtless in some ventures even 8 per cent. may be too low to tempt capital.

To encourage capital to develop promptly our public utilities and natural resources for the benefit of present, as well as future generations, make such dividends cumulative, as many new enterprises do not pay in their incipiency.

(d) After all the above are provided for, should any net profits

remain, divide them equally between the city, state or nation entitled to the same and the corporation stockholders.

Fourth. For any permanent improvements or enlargements of present utilities or those hereafter incorporated, additional stocks or bonds should be allowed to be issued only on the approval of the Commissioners, as indicated under the second head.

Fifth. In our search for justice, to the end that present innocent holders of stocks in existing corporations—which may not be fully paid for—be not wronged by legal enactment, allow present outstanding stocks to remain, the same to be equitably adjusted by the Commissioners whenever the corporation asks for an increase of stock, all of which, if granted, must comply with the new corporation rules. Under this process in a few years practically all wrongs would be righted without doing violence to innocent investors.

Sixth. Extensions of charters should be granted every twenty years, and rates readjusted for service, basing such rates upon the average annual profits for the past twenty year period. Wherever profits are large, this readjustment will reduce rates in the interest of the people as a whole and still maintain justice to all.

The average for the twenty year period is equitable, because every intelligent economist knows the maxim, that waves of prosperity follow those of adversity, therefore net profits and consequently stock values are always fluctuating. Stability of profits and stock values are practically an unknown quantity. To illustrate:—The Chicago Tribune in 1904 gave a compilation of 120 Railroad and Industrial stocks, showing fluctuations as follows:

Nov. 1st, 1902 market values totalled 8,000 millions of dollars.
Nov. 1st, 1903 market values totalled 6,000 millions of dollars.
Nov. 1st, 1904 market values totalled 7,500 millions of dollars.

showing a loss of 2,000 millions of dollars between 1902 and 1903, the year of our depression, causing reduced profits. On the other hand, from 1903 to 1904 these same stocks increased in value 1,500 millions of dollars because of a return of confidence and prosperity, bringing increased profits.

Again, from January 1, 1907, to January 1, 1908, a total of 141 stocks showed a loss of 3,240 millions of dollars, or about one-third their total value. This was practically recovered in 1908-'09 from the same causes as in 1903-'04.

But in 1910, the year when Nature was most generous in her gifts to the farmer and stocks ought to have risen, yet 100 of the great corporate stocks showed a loss of 950 millions of dollars, and general business was in a halting mood, doubtless caused by distrust.

Since 1910 Nature has been wondrously kind in her gifts to us, yet savings and other banks, trust and insurance companies—also millions of private investors in legitimate securities, have suffered losses in the vast declines of stock and bond values, far in excess of panic periods. These facts have staggered the confidence of investors generally to the extent that capital hesitates, and therefore the wheels of commerce have slowed down.

These facts, together with the daily newspaper quotations, indicating not one stock in a hundred quoted at par, show conclusively to any intelligent mind, that to keep stock, or even bond values at par, whether fully paid or not, is purely mythical.

The great natural laws of supply and demand; also rise and fall of confidence, which breeds depression or prosperity, together with genius of successful business management, or lack of it, causing increased or decreased profits, practically govern the rise and fall in values, not of stocks and bonds alone, but of all property. Attempts to regulate prices by law exploded as a ridiculous theory even in Diocletian's reign. This Emperor, about 301 A. D., issued an edict stipulating that prices on some 800 articles of necessity, including prices of labor, must not exceed certain limits. Infractions of the law made the participants subject to the death penalty. The law was soon repealed, because the application of it proved that the laws of supply and demand were stronger than statutory enactments.

As the high cost of living is a live issue these days, permit a moment's digression to illuminate this subject by quoting a few extracts from "The Common People of Ancient Rome" by Prof. Frank Frost Abbott of Princeton University.

Diocletian's maximum prices, 301 A. D., as compared to ours in 1906.

Articles of Food.

	301 A. D.	1906.
Wheat per bushel	33.6 cents	$1.19
Rye per bushel	45 cents	.79
Barley per bushel	74.5 cents	.55
Fresh pork per pound	7.3 cents	14-16 cents
Beef per pound	4.9 cents	9-18 cents
Mutton per pound	4.9 cents	13-16 cents
Ham per pound	12 cents	16-25 cents
Butter per pound	6.9 cents	26-23 cents
Fresh fish per pound	7.3 cents	12-15 cents
Cheese per pound	7.3 cents	17-20 cents
Eggs per dozen	5.1 cents	25-30 cents
Milk (sheep's) per quart	6 cents	cow's 6-8 cents

Wages per Day.

	301 A. D.	1906.
Uuskilled workmen	15 cents	$1.20 to 2.25
Mason and bricklayer	29 cents	3.70 to 6.50
Carpenter	29 cents	2.50 to 4.00
Painter	43 cents	2.75 to 4.00

Prof. Abbott says: "For the urban workman, then, in the fourth century, conditions of life must have been almost intolerable, etc.' From this we can fairly exclaim that we can thank God we live under the stars and stripes in this 20th century of history.

Professional Wages.

Elementary teacher, per pupil, per month.....	21.6 cents
Teacher in arithmetic, per pupil, per month....	32.6 cents
Teacher in writing, per pupil, per month.....	21.6 cents
Teacher in Greek, Latin, Geometry, do.....	37 cents
Lawyer, for presenting a case.....	$1.09
Lawyer, for finishing a case.....	4.35

Probably the teachers and professors of today might rebel on Diocletian's edict, but the people would shout for joy over the lawyer's fat fees. Jarndyce vs. Jarndyce would not long survive under such limitations

I will not quote further than to say that freight transportation in 301 A. D., by wagon or camel, approximated fifteen times our average railway rates of today.

Comparing our wonderful general prosperity with the early centuries, would seem to indicate our wails of woe are rather far fetched.

In this enlightened age, we must also heed the warnings of that old Kaffir proverb, that: "He who will not profit by the experiences of the past, gets knowledge when trouble overtakes him." Let us not be carried away by the sophistical preachments of many well intentioned but superficial arguments. "Truth crushed to earth will rise again." The wrong-doer can be punished, but prices cannot be kept from fluctuations.

CHICAGO EXPERIENCES.

The City of Chicago, under a similar division of net profits in excess of fixed charges on stipulated total valuations of its street railways, has received over ten millions of dollars in the past seven years as its share of profits on a straight five cent fare.

This, of course, is not a criterion of what to expect from all public utilities, because large profits come only in great cities of the 1st class, moderate profits in cities of the 2nd class, and very small profits or net losses from operation in small cities of the 3rd and 4th class. Excessive corporation profits—except in rare cases of superior management—is a popular fallacy. As conclusive evidence of this fact, the report of the Commissioner of Internal Revenue for the year ending June 30, 1913, shows the net profits of 305,336 corporations in the United States were but 3.9 per cent. After paying interest on the bonded debts, the stock dividends approximated but 3 per cent. We must not forget that thousands of corporations paid no dividends whatever. In cases where no dividends were declared, evidently labor received its reward and capital none. The Statistical Abstract of the United States indicates the average dividends paid to stockholders of all railroads in the past twenty-five years was only 2½ per cent. Over 60 per cent. of the total mileage went into receivers' hands and was sold under foreclosure of mortgage. It would seem—if wrongs have been done, right them, but do not punish the millions of innocent stockholders. Those cases are cited to show the equity of the plan of dividing wih the municipality or state after capital development receives its just reward, as an encouragement to progress. Capital halts under distrust. Confidence of reasonable protection ensures progress. We are now in a halting mood. Clarify the situation and progress is assured. Progress gives full employment to labor and abolishes the public soup house.

CONSERVATION.

Seventh. Apply this solution not alone to public utilities, but with equal force to undeveloped water powers, coal mines, etc., belonging to the state or nation. In cases of public utilities, non-competitive, time charters seem necessary, but in case of conservation of natural resources, with the necessity for improvements of a permanent character, only absolute ownership with a share of net profits to the state and corporations, as indicated, will command and ensure quick development.

LEASING.

Leasing of them prevents borrowing to develop and certainly would materially retard progress. Leasing would be like landlordism in Britian. Ownership upbuilds. Leasing retards development.

ILLUSTRATION.

To illustrate our wonderful possibilities, the developed water powers of the United States are now estimated at 7,500,000 horse power. The steam, gas and others, say at 6,500,000 more. The possibility of further water power development is estimated by the great expert engineers at 50,000,000 to 150,000,000 horse power. Unharnessed water power is annually running to waste and all other powers are consuming forever our natural coal supplies by at least 100 millions of tons annually, as well as other fuel resources.

Eminent authorities claim that if we should develop from our water powers now running to waste, even ten millions of horse power above present development, the saving of coal would approximate 25 per cent. of our total annual output. The value of this saving can fairly be estimated at 25 per cent. of our national debt of one thousand millions of dollars.

Would not such immense coal saving be true conservation?

Is it worth while to save $250,000,000, annually now going to waste?

Under such an increased development, the people would save annually vast sums in reduced cost to them of water power as compared to steam power, and the promoters would receive but a fair return upon their invested capital. If profits exceeded the stipulated limitations, those who have risked their capital would receive but half of the excess, and the city, state or nation the other half. If profits seemed excessive in particular cases, the horse power rates could be reduced in the interest of the people as a whole.

Further, the tax income to each locality would be materially increased because of the building of the plants, including the vast developments which naturally follow in the wake of such cheapened power. We must not forget that all water powers do not make millions for their owners. We can name several large developments that are in the bankrupt court, caused by great floods and other unfortunate conditions. Risk can never be eliminated from any enterprise. Therefore, is it not the part of wisdom to encourage all possible development of water power resources on lines as indicated, to the end that the present, as well as future generations may thus conserve our natural resources? Also, to the end that the dense smoke and begrimed, cinder laden atmosphere, engendered by the use of coal and other combustibles in making power may, as far as possible, be supplanted by electricity generated by water power, which brings more sunshine, better health and happiness. If so, why hamper present development? We need it now and future generations under this plan are fully protected. May we quickly open the floodgates of opportunity to individual initiative, and thus will a more abundant progress await all our combined interests.

Can we not fairly conclude that any government which arbitrarily fixes any rates which will not produce a reasonable net income to the investor, is tyrannical and no better than a highwayman? The province of government is to protect its citizens in "life, liberty and the pursuit of happiness" and not to confiscate their property.

TO SUM UP.

Under the plan proposed herein, doubtless capital would be encouraged. Quick development not palsied. Stock and bond issues would be more stable and innocent holders' rights protected. Manipulation would be reduced to a minimum. Capital and the people's interests would be yoked together in one common interest. Eternal wrangling would largely cease. General confidence, that great bulwark of all progress, would be uppermost. In the just division of profits, equity would reign supreme. Is this not a righteous solution of these complex problems?

ANDREW J. FRAME,
Waukesha, Wis.

Waukesha, Wisconsin, November, 1914.

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